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Internal audit and oversight

Internal audit and oversight*

Report of the Administrator

Summary

The report is submitted pursuant to arrangements agreed on by the Executive Board. It provides information on the activities relating to internal audit and investigation services provided by the Office of Audit and Performance Review for the year ended 31 December 2004. As requested by the Board in its decision 2004/17, the report also contains information on the steps taken by the management of the concerned offices to address the issues contained in last year's audit reports as well as the timeline within which to complete them and the indicators of progress or completion thereof.

Elements of a decision

The Executive Board may wish to: (a) take note of the report of the Administrator on internal audit and oversight (DP/2005/26); (b) express support for the continued strengthening and reorganization of the UNDP internal audit and investigation services.

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*The compilation of data required to present the Executive Board with the most current information has delayed submission of the present document.

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I. Introduction

1. The Administrator is pleased to provide the Executive Board with the annual report on internal audit and investigation services by the UNDP Office of Audit and Performance Review (OAPR) for the year ended 31 December 2004.

2. During 2004, OAPR provided internal audit and investigation services to UNDP and to the United Nations Office for Project Services (UNOPS). Detailed discussion of the internal oversight activities carried out on behalf of UNOPS is included in a separate report, which is being submitted to the Executive Board at its present session by the Executive Director, UNOPS (DP/2005/27).

II. Developments in the UNDP oversight mechanism and accountability framework

3. In addition to OAPR, other organizational arrangements for the oversight and accountability framework of UNDP are the Management Review and Oversight Committee (MROC) and the Oversight Sub-group of the Executive Team. This sub-group consists of OAPR, the Operations Support Group (OSG) and the Evaluation Office. Furthermore, the Office of Legal and Procurement Support (OLPS) plays a key role with respect to the administration of the internal justice system. In addition, there is the United Nations Board of Auditors that is responsible for the external audit of UNDP and reports to the Executive Board of UNDP/UNFPA and to the General Assembly through the Fifth Committee and the Advisory Committee on Administrative and Budgetary Questions (ACABQ).

4. One of the latest developments in the General Assembly is the adoption – following deliberation of the report of the United Nations Board of Auditors on the audited financial statements for the biennium ended 31 December 2003 (A/59/5/Add.1) – of resolution 59/264, which sets out among others the following provisions:

> *Takes note* of the reports of the Secretary-General on the implementation of the recommendations of the Board of Auditors by the United Nations and its funds and programmes, and invites the Board of Auditors, in consultation with the Secretary-General and the executive heads of the funds and programmes, to categorize the recommendations according to their priority for implementation;
>
> *Requests* the Secretary-General and the executive heads of the funds and programmes of the United Nations to indicate an expected time frame for the implementation of the recommendations of the Board of Auditors, including the office holders to be held accountable;
>
> *Reiterates its request* to the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance principles and to report thereon to the General Assembly at its sixty-first session, through the respective governing bodies of the funds and programmes of the United Nations;

5. In response to this resolution, OAPR and the Bureau of Management have started the consultation process to develop and propose a strategy for implementation in order for UNDP to comply with these General Assembly requirements.

6. In January 2004, a new policy was approved covering disciplinary and accountability measures, which explained the rights and obligations of staff and the administration in investigating and processing disciplinary cases. This was done through the prescriptive content on accountability, disciplinary measures, and procedures that was issued in January 2004 to all UNDP staff and permanently posted on the UNDP intranet.

A. OAPR resources

7. OAPR operates in a decentralized manner, with some sections located at headquarters and others in the field. The field presence consists of three regional audit service centres (RASC) in Johannesburg, Panama and Kuala Lumpur and two sub-offices in Bratislava and Dakar. A third sub-office in Lebanon was opened in February 2005.

8. On human resources, the results of the repositioning exercise initiated by OAPR in late 2002 had significant implications for its structure and number of posts. Most of the key recommendations of the repositioning exercise as published in DP/2003/21 have now been implemented.

9. During 2004, the organizational structure was changed to achieve the key recommendations to strengthen OAPR in its competencies in investigation, quality assurance, information and communications technology (ICT) functions, and to enhance the multidisciplinary character of audit teams. In the OAPR job fair, all of the 49 posts (except for the Director post) were declared vacant and resulted in external recruitment of staff (16 posts in 2003 and 13 in 2004) and internal reassignment of 11 staff. In November 2004, a new Director of OAPR was appointed, a post that was vacant for almost a year. As at 31 December 2004, eight posts remain vacant and recruitment is ongoing. A breakdown of the authorized posts by section is provided in table 1 below.

Table 1. Staffing

	Director level	Professional posts	National officers	General service	Total
Headquarters internal audit and RBEC	1	8	2	5	16
RASC, Africa	-	3	4	1	8
RASC, Asia and the Pacific and Arab States	-	3	4	1	8
RASC, Latin America and the Caribbean	-	2	2	1	5
Investigation section	-	4	-	1	5
UNOPS audit section	-	6	-	1	7
Grand total	1	26	12	10	49

10. With respect to the UNOPS audit section, the post of Chief became vacant with the retirement of the incumbent in August 2002 and remains so. The functions of Chief are since being performed by a staff member in the UNOPS audit section. The present management of OAPR has agreed with management of UNOPS that this

post should be filled as soon as possible. All other posts were filled as of December 2004 except for one post that was frozen as a result of UNOPS financial situation.

11. On financial resources, OAPR total budget for 2004-2005 is as follows:

	Headquarters	Out-posted units	Total
Staff	4 371 141	2 857 711	7 228 852
Operating expenses	1 728 000	1 198 200	2 926 200
Total			**$10 155 052**

12. Of the total amount, $8.5 million are funded from regular (core) resources and $1.7 million from other (non-core) resources.

13. When viewed against total UNDP resources of $575 million, the cost of OAPR is $0.01 for every $1 spent by UNDP per biennium.

B. OAPR initiatives to improve effectiveness and client service

14. The revised scope of country office audits introduced in mid-2003 that reduced the number of audit areas from 15 (the number used for piloting the new approach) to 12 is currently applied and performance of country offices is assessed in these 12 areas. These areas are consistent with the UNDP Business Plans, business model and results-based management. The sequence of the sections follows a top-down approach beginning with the country-level programme; followed by strategies for achieving development results (management plans, management of people, knowledge sharing and practices, partnerships, and resource mobilization); and concludes with country office operations (support to the United Nations, advisory and advocacy services, development services, and operations support).

15. An important recommendation of the repositioning team is the addition of a corporate risk assessment function, which is also one of the recent recommendations of the Board of Auditors – that UNDP complete a comprehensive risk assessment exercise and establish a risk committee.

16. To begin, OAPR formulated a risk-based annual work plan. OAPR carried out an assessment of risk areas and risk factors at various levels in a series of planning meetings that took place towards the end of 2004 and in early 2005. Consultations with key officers in UNDP and UNOPS were held to determine risk areas at the corporate level. At headquarters, OAPR also started a risk-based approach by identifying key factors or significant events happening in the external environment that have direct or indirect impact on UNDP, such as the General Assembly, Executive Board, the United Nations system and general public opinion, as well as major events like the tsunami disaster, the humanitarian crisis in Sudan, the inquiry on the Iraq Oil for Food Programme, etc.

17. An informal risk assessment approach was used to prepare the OAPR strategy and work plan for 2005. This took into account recent audits undertaken, and other additional criteria such as complexity, volume and level of operations of the various UNDP organizational units or of mission critical projects like the implementation of

the Enterprise Resource Planning (Atlas) system and the outcome of audits and/or investigations undertaken in country offices. This process of risk assessment will be pursued further in 2005 and a more systematic and comprehensive system will be developed.

18. OAPR continued to provide advisory services to offices at headquarters, regional bureaux, regional centres and country offices on a wide array of subjects that include: advising on the implementation of changes to operating practices and procedures as they relate to internal control issues; facilitating workshops to increase internal control awareness; reviewing memoranda of understanding (MOUs) and financing agreements with donors, and delegation of authority to country offices. In the exercise of this function, OAPR has taken steps to ensure that its advisory services are based on the engagement's potential to improve management practices, mitigate risks, add value, and/or improve the organization's operations.

III. Internal audit and related services

19. Overall, the level of internal audit and related service outputs in 2004, although better than in 2003, continued to be significantly lower from that of previous years. The lower number of UNDP audits/reviews continue to be mainly attributed to the same reasons reported in DP/2004/27. The first reason, which is largely the result of the re-profiling exercise, is that a large number of posts were vacant during the year and the main activity in 2004 was the recruitment of candidates to fill the vacant positions and their orientation and training into the UNDP environment. The second reason is the change in audit approach. Prior to 2003, OAPR used to fully contract out internal audits of country offices to various audit institutions in the host government or to public accounting firms. While the contracted audits helped to increase the frequency of audit coverage, the disadvantage was that auditors performed them with little knowledge of UNDP, and therefore results of their audit did not meet expected levels of quality of work. What proved useful was when the contracted audit services were put under direct supervision of OAPR with OAPR defining the scope of work, agreeing on the audit programme and audit approaches, and owning the work and audit working papers of the outsourced auditors. Hence, for 2005, OAPR will continue using this approach of contracting out audit services in a more cost-effective manner only when OAPR does not have the expertise necessary for such audits or when augmenting existing staffing resources to respond to short-term increases in demand for audit services.

20. The number of UNDP audits/reviews undertaken was 27 in 2004, 18 in 2003 and 56 in 2002, of which 19 were contracted locally. Table 2 summarizes OAPR output for 2004.

Table 2. Internal audit services provided in 2004

	In process as of 1 January 2004	Projects initiated	Reports issued	In process as of 31 December 2004
Internal audits/reviews of country offices	4	26	16	14
Management reviews and advisory services	1	12	3	10
Internal audits/reviews of functions/headquarters units	-	4	3	1
Internal audits/reviews of projects	1	4	5	-
Subtotal: audits/review	*6*	*46*	*27*	*25*
UNDP – Assessment of national execution audit reports		**1 811**	**1 811**	

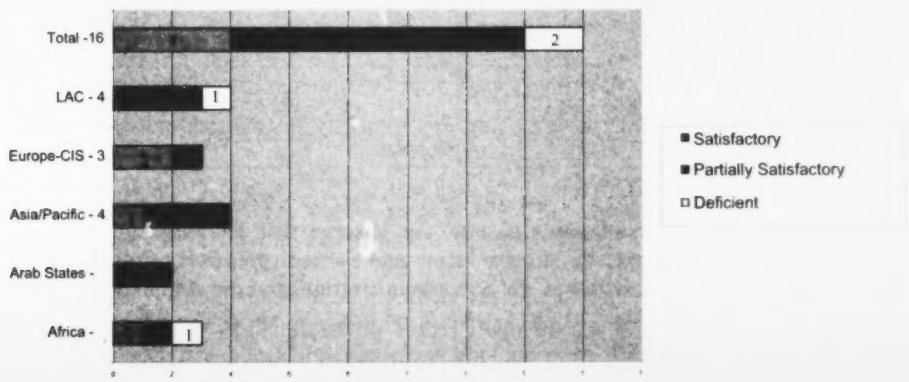
A. Audit of country offices

21. During 2004, OAPR issued a total of 16 internal audit reports on country offices (12 full scope and four limited scope) in the five regions (three in Africa, two in the Arab States, four in Asia and the Pacific, three in Europe and the Commonwealth of Independent States (CIS) and four in Latin America and the Caribbean).

22. As noted above, although slightly better than in 2003, this is a significant decline from 2002 when 44 internal audit reports were issued (29 full scope and 15 limited scope). In 2002, the 15 limited scope audits were conducted by a public accounting firm contracted by OAPR.

23. At the end of each audit engagement in a country office, OAPR assesses each office's performance according to a three-point rating system: satisfactory, partially satisfactory and deficient (annex I sets out a definition of these performance ratings). Table 3 shows the performance ratings by region as reflected in the 16 internal audit reports issued in 2004.

Table 3. Internal audit reports issued in 2004, by region and rating



management identify and prioritize their actions so that they can address the more important issues in a more cost-effective manner. For example, one of the offices audited in 2004 had an overall rating of partially satisfactory but the recommendations relating to the issues on administration of human resources were prioritized as high. This means that the recommendations call for actions that are considered imperative to ensure that UNDP is not exposed to high risks that could result in major consequences.

Table 5. Prioritization of recommendations by audit area

	High		Medium		Low		
Category	**Number of recommendations**	**%**	**Number of recommendations**	**%**	**Number of recommendations**	**%**	**Total**
Country level programme	13	11 %	9	4%	14	8%	36
Management strategies	8	7%	13	6%	11	7%	32
Knowledge sharing and implementation of practices	5	4%	7	3%	3	2%	15
Partnerships and resource mobilization	8	7%	14	7%	12	7%	34
Support to United Nations coordination	7	6%	7	3%	20	12 %	34
Advocacy services	3	3%	1	0%	3	2%	7
Development services	24	21 %	33	16 %	14	8%	71
Human resource administration	10	9%	40	20 %	29	17 %	79
Procurement inventory and office premises	18	16 %	44	22 %	24	14 %	86
Financial resources	17	15 %	28	14 %	28	17 %	73
General administration	1	1%	3	1%	4	2%	8
ICT	2	2%	4	2%	4	2%	10
Total	116		203		166		**485**
Per cent to total recommendations	*24%*		*42%*		*34%*		

27. The above tables show that out of 485 total recommendations, 24 per cent are considered high, while 42 per cent are medium, and 34 per cent low. The majority of recommendations categorized as high refer to development services, 21 per cent; procurement, 16 per cent; financial resources 15 per cent and country level programme 11 per cent. Most recommendations categorized as medium refer to procurement, 22 per cent; human resource administration, 20 per cent; development services, 16 per cent; and financial resources, 14 per cent. The recommendations categorized as low are distributed among human resource administration, 17 per cent; financial resources, 17 per cent; procurement, 14 per cent; and support to United Nations coordination, 12 per cent. In using this table of prioritization of

recommendations, one can therefore advise that if there were very limited resources available in addressing these recommendations, one should focus in responding to the 24 per cent high risks recommendations and cascades down to the 41 per cent medium risks recommendations. Looking at it at the corporate level, the above table shows that there is a great deal of work that needs to be undertaken in addressing a high percentage (65 per cent) of high and medium risk-related recommendations.

B. Audit of headquarters functions

28. Prior to the implementation of Atlas in 2004, the Bureau of Management conducted an extensive exercise of data cleaning in the old system in preparation for the migration of clean data in the new system, and a reconciliation of account balances as at the end of 2003. Therefore, OAPR carried out a review of the due diligence and due care exercised to minimize the total write-off amounting to $9 million. The transactions requested for write-off generally related to the period 1993 to 1998. In most cases, there were insufficient details in the general ledger to facilitate tracing back to the original documentation, and where the details existed sufficient documentation could not be found.

29. In the view of UNDP, approximately $3.6 million of the total write-off represented real loss to UNDP. In other words, it represented unrecoverable amounts that had to be written-off because the debtor is unknown, cannot be located, or does not accept responsibility for the charge. Approximately $4.7 million represented expenditure that should have been recorded in prior years. The remainder, approximately $0.7 million, could not be identified nor explained as there was insufficient documentation.

30. In the UNDP review of the due diligence process, UNDP also looked at the internal control weaknesses and accountability issues. The OAPR review included recommendations that will strengthen internal controls and minimize the risk of future write-offs of this size. The most important recommendation was that the Office of Finance and Administration (OFA) should ensure that all accounts are reconciled on a timely basis (at least semi-annually), that all accounts reconciliations are approved by the appropriate officer, and that a master list of accounts that need to be periodically reconciled should be maintained.

31. Following recommendations made by the Board of Auditors, OAPR initiated in December 2004 a review of internal controls in the Enterprise Resource Planning (ERP) system, or Atlas, and of ICT corporate security within UNDP. Both of these reviews were outsourced by OAPR through competitive selection because of the absence of in-house capacity. At the time of the writing of this report, the review on internal controls in the present ERP environment is almost complete; the review of ICT corporate security is still under contract negotiation with the selected company.

32. Other than the above audit activities, not much was done in the review and audit of headquarters functions such as corporate function of treasury, financial management, budget management, global funds, high value procurement and various ICT strategy and systems and procedures, modalities for cost recovery, and several others. This is a result of the fact that, in the repositioning of OAPR, not much weight was given to headquarters functions when staffing resources were allocated, which are very much different from that of country offices not only in

terms of scope but also in the nature and sensitivity of activities in these key corporate functions. This is an area of concern that OAPR needs to focus on if it is expected to improve the overall oversight mechanisms in UNDP.

C. Review of direct execution projects

33. OAPR undertakes project specific audits on an exceptional basis. In general, where UNDP directly executes projects, OAPR practice is to audit project expenditures as part of its broader audit of the country office's activities. However, where project expenditures are significant or other risk factors exist, OAPR carries out special project audits, either directly or through public accounting firms.

34. In 2004, two financial audits of direct execution projects were conducted in Timor-Leste and Cambodia covering a 24-month period ending 31 December 2003. The audit exercise noted improvements in the accounting and finance areas but reported continued weaknesses in the management of development projects, personnel-related matters and non-expendable equipment. An unqualified opinion was expressed on the statement of expenditures totaling $11.5 million for the period 1 January 2002 to 31 December 2003 and on the statement of cash position as at 31 December 2003. An exceptional opinion was expressed on the statement of non-expendable equipment for a total of $5.1 million as at 30 April 2004 owing to the existence of items totaling $1.5 million, which were either pending repairs or obsolete, and items totaling $0.6 million, which have been valued using cost estimates because the actual costs could not be determined. Review of the projects' internal control systems indicated that these were overall satisfactory and that 90 per cent of the audit recommendations in previous years have been implemented.

35. As mentioned in last year's report (DP/2004/27), a liquidation audit of the projects located in northern Iraq, referred to as the Electricity Network Rehabilitation Programme (ENRP), was carried out in December 2003 by an international public accounting firm under contract with OAPR.

36. The liquidation audit report included a number of observations and recommendations regarding the activities of the programme and the handover procedures to the Coalition Provisional Authority (CPA). It was noted that the majority of the observations and recommendations raised in the liquidation audit report resulted from the fact that the audit field work was carried out while the financial matters and the closing of the books were not yet fully completed. However, in May 2004, a follow-up review undertaken by OAPR indicated that the most critical observations and recommendations in the liquidation audit report have been satisfactorily addressed. This project was also the subject of extensive review that started in 2004 up to this time by the Independent Inquiry Committee on the Iraq Oil for Food Programme.

D. Advisory services and management reviews

37. Key advisory services undertaken in 2004 included ongoing participation in the United Nations simplification and harmonization initiative and advising the UNDP ICT Decision Group. OAPR assisted in the preparation of guidelines for resource

transfer modalities, including tools to assess the financial management capacity of implementing partners and common terms of reference for project audits where the projects are managed by national partners. This is in line with similar initiatives and good practices of the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD).

38. In March 2004, OAPR initiated a management review of internal controls in Atlas. The review focused on assessing whether Atlas fully leveraged PeopleSoft's potential from a control perspective. A key finding was the need for UNDP to finalize (complete and approve) the internal control framework for UNDP offices taking into account the necessary alignment between Atlas and the supporting processes. Other observations and recommendations included weaknesses in Atlas and its implementation such as insufficient (exception) reporting capabilities, insufficient use of the audit trail functionality of Atlas and the need for a follow-up training for Atlas users.

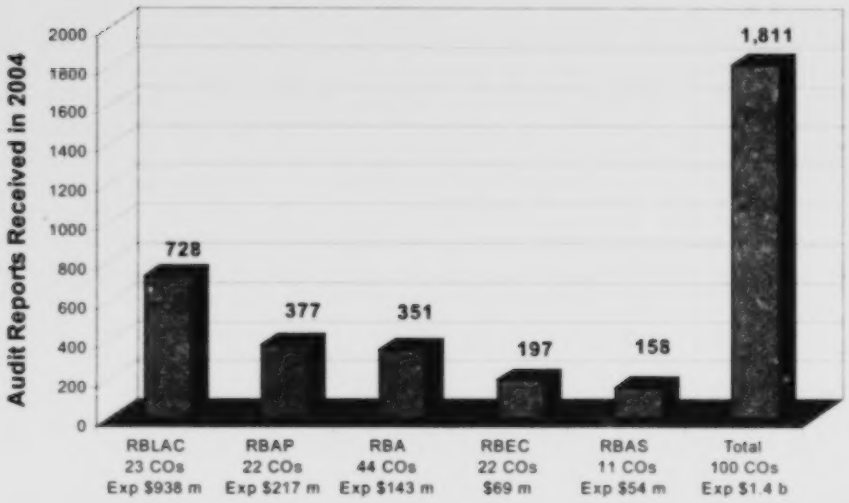
39. With the initiative and leadership of OAPR, an internal control framework for UNDP was finalized and implemented in early 2005.

E. National execution audits

40. In 2004, OAPR continued to reinforce measures initiated in 2002 and 2003 in the review and monitoring of the annual audits of nationally executed projects. These measures were standardizing the terms of reference for the audits, and providing country offices with guidance in assessing and selecting auditing firms. The quality and consistency of the national audit exercise has been greatly improved over the past five years. OAPR diligently monitors and follows up on the progress of the audit exercise – providing country offices with regular feedback on positive areas as well as areas for improvement. The one area that needs strengthening is the analysis of the outcome of these audits and follow-up of actions being taken by project management to address audit issues raised and recommendations made by the auditors. This is a high risk area owing not only to the large volume of projects (1 811 in 2004) and total amount ($1.4 billion in 2004) but also resulting from very limited OAPR resources available for the appropriate and timely review of audit reports and the corresponding follow-up and evaluation of actions taken by project management.

41. During 2004, OAPR received and monitored audit reports of 1 811 projects from 122 countries for the 2003 audit exercise – an increase from 1 660 reports for the 2002 audit exercise received in 2003. A breakdown of the number of project audit reports received in 2004 is provided in table 6.

Table 6. National execution audit reports received in 2004

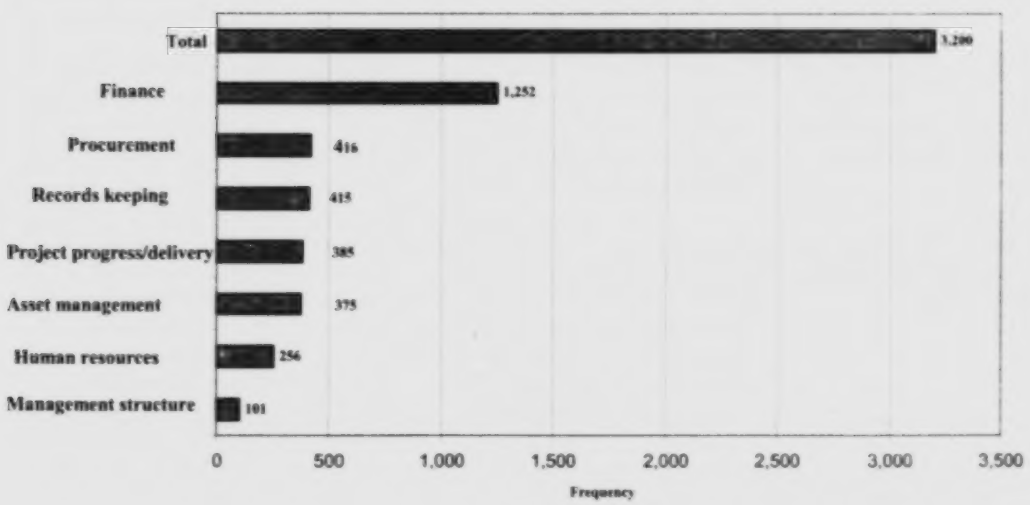


(These 1 811 projects included 86 direct execution projects that were reviewed by local auditors)

42. The audit exercise was assessed for all 122 country offices, and letters summarizing the significant and recurring issues raised and recommendations made by the national execution auditors were sent to resident representatives and copied to the regional bureaux, OSG and the Comptroller's Division for their attention and appropriate action.

43. As part of the OAPR initiative in helping management initiate risk assessment, the issues raised by national execution auditors in their reports were determined in terms of how frequently they occurred in the seven audit areas. Annex III provides a definition of the seven audit areas.

Table 7. Distribution of national execution audit issues



44. Table 7 shows that the highest risk for national execution projects is in the area of financial management. These issues include, among others: (a) discrepancies between combined delivery report (CDR) amounts and project financial records, 21 per cent; (b) over-expenditure or discrepancies between actual expenditures and approved budgets inadequate accounting systems, 21 per cent; (c) lack of or inadequate supporting documentation for issuance of payments, 9 per cent; (d) absence of and/or discrepancies in bank reconciliations, 7 per cent; and (e) inadequate cash management system, 3 per cent.

IV. Follow-up of internal audit recommendations – country offices, headquarters and direct execution projects (decision 2004/39)

45. Pursuant to Executive Board decision 2004/39 on internal audit and oversight, major issues identified in the 2004 internal audit reports are presented in the table below, which contains the country offices strategies in addressing these issues.

Table 8: Audit issues in 2004 internal audit reports

Issues identified in internal audit reports in 2004	Strategy for addressing issue/auditee comments	Timeframe	Indicator of progress/ completion
Development services			
There was no consistency in the way project monitoring was done.	A more aggressive project monitoring will be undertaken.	End of 2005	Project monitoring system installed.
Projects that had been operationally closed for more than 12 months were not financially closed.	All operationally closed projects will be financially closed and final revisions will be duly signed during the first 6 months of 2005.	Mid 2005	Financial report on closed projects issued.
All projects should be subject to review by the Programme Advisory Committee (PAC) and the review documented before signature by the resident representative	Country office will establish an internal controls checklist to be attached to project documents and completed before signature by resident representative	Implemented	PAC approval reflected on the project document
Country office should institute processes to assess gender issues and factor these into project/programme design	A list of all projects will be prepared listing the existing instances of gender issues and concrete opportunities for improvement. Project officers will negotiate changes to the project documents with respective counterparts	January 2005	Increased number of gender issues reflected in project documents.

Issues identified in internal audit reports in 2004	Strategy for addressing issue/auditee comments	Timeframe	Indicator of progress/ completion
Country office should ensure that audit requirements -especially timeliness - are discussed during project formulation, and reassure the same when projects are selected for the audit. Also, the country office should be more proactive and in permanent contact with the auditors and the executing agency on the audit status so that reports are submitted to OAPR by the 30 April deadline.	Country office is following up on the national execution audit but it may be important to note that we continue to have difficulties with the executing agency with regard to having them conduct the audit in time. Even though the country office endeavoured to take charge of the national execution audit process, the reality is that authorization for the exercise is vested in the national authority and they do not seem to understand the imperative that the audits must be done and submitted by the established deadline.	Ongoing	Increased number of audit reports submitted within national execution audit requirements and within deadline.
Procurement			
Procurement process needs to be strengthened to avoid deviations from rules and procedures, such as: • Post facto approvals • Awarding amendments for processes already completed • Not seeking timely approval of Advisory Approval Committee (ACP) for purchases greater than delegated authority	These cases were exceptions to the norm and occurred in response to urgency in executing the project. Country office will ensure that deviations from rules and procedures are avoided.	Ongoing	Reduced number of these deviations and if they do occur, these are properly documented
There is a need for an accurate and timely recording, tracking and maintenance system of country office assets.	Atlas will be used to monitor inventory of items movement and disposal	December 2004	Monitoring and tracking system in place.
For operationally-completed projects, country office should ensure that non-expendable properties are disposed of without delay and in accordance with Section 6.4.5.3 of the Programming Manual	Disposal procedures were performed and completed	Implemented	Non-expendable properties properly disposed of.
Financial resources			
Country office should ensure that all requests for payments be adequately justified and supported prior to processing payments.	These were advances for which invoices were received later.	December 2004	Supporting documentation completed for each payment
The office assisted in the opening and maintaining of four project bank accounts. Payment transactions on all four bank accounts are authorized by joint signatures of UNDP bank signatories. All four accounts were opened without Treasury authorization. These accounts should be closed.	All four accounts have been closed.	Implemented	Written authorization for the opening of bank accounts.

Issues identified in internal audit reports in 2004	Strategy for addressing issue/auditee comments	Timeframe	Indicator of progress/ completion
Payments for SSA contracts were sometimes being processed without any certification that the contract holder had satisfactorily performed the services stipulated in the contract document.	Staff has been reminded once again of this requirement.	Implemented	All special service agreements (SSA) contracts are fully supported.
Country level programme			
For the CCA/UNDAF process, the country office should include corresponding government counterparts early in the process to insure more cohesion and possibility for cooperative efforts.	The Senior Management Team (SMT) will apply this recommendation during the next CCA/UNDAF exercise.	-	All documents are prepared in accordance with UNDG and UNDP procedures and review processes are in place
The strategic results framework (SRF) to be reviewed collectively led by senior management. Care should be taken to assess the realistic nature of current or new outcomes in particular and relevant targets given the pace of progress and the overall political situation in the country; outputs and links to other partners need to be better articulated as well.	The SMT will apply this recommendation during the next SRF exercise.	-	A more strategic SRF
Although some adjustment to the SRF has been done, there has not been a major strategic review of inputs. Additional restructuring of the SRF outcomes / outputs needs to be done based on the strategic orientation of the country office and the UNDP overarching goal as stated in the SRF/ROAR manual.	Action has already been taken in that direction. The 2004 SRF has been reduced to 11 outcomes, indicating the effort to direct UNDP actions more strategically, taking into account country priorities as well as UNDP practice areas	Implemented	A more strategic SRF

46. In monitoring the implementation of audit recommendations, OAPR continues to use the Comprehensive Audit and Recommendation Database System (CARDS) on a more detailed level. OAPR requires that all offices use CARDS to systematically report on the implementation status of recommendations. To reinforce this process, OAPR has designated focal points that will be responsible for monitoring the updating of the database to ensure that appropriate actions are taken by management on a timely basis. The self-assessments by offices reported in the CARDS are verified by OAPR in the subsequent audit of the office. However, this system does not provide much capacity to perform a more in-depth trend analysis and/or corporate reporting. Therefore, OAPR is currently piloting the use of an automated audit tool to be used for actual audit work as well as database for audit recommendations with strong monitoring and analytical features that would facilitate reporting, risk analysis, and timely follow-up of implementation of recommendations.

V. Investigation services

47. The addition of a full-fledged investigation section is a result of the re-profiling of OAPR, which established four professional posts, including a chief, three investigators and an administrative assistant. The section began its first full year of operation in 2004, with a chief and one investigator who separated in September 2004 and will be replaced by mid-2005. By mid-year 2004, two other investigators joined the section. In support of the United Nations initiative and in cooperation with UNFPA and UNOPS, UNDP established a fraud prevention committee in 2002. OAPR, as a member of this committee, contributed to the discussions that led to the preparation of a fraud policy statement, which is under finalization. Each representative of the participating fund or programme was responsible for managing the approval process within their own organization. In UNDP, the fraud policy statement will be presented to the Executive Team in 2005.

48. Earlier in 2003, OAPR with the support of the Office of Audit and Legal Support (OLPS), issued draft guidelines to strengthen the quality of UNDP investigations – specifically to ensure that investigations are carried out in a manner that is fully consistent with the principles laid down in the policy and to provide technical guidance to investigators on planning, executing and reporting on investigations.

49. Working closely with the Office of Human Resources, OLPS, and the Regional Bureau for Africa, OAPR participated in two regional workshops and made presentations on ethics and accountability. OAPR prepared a fraud resource CD-ROM that was distributed at these two workshops. OAPR plans to roll this out and other fraud prevention resources for a wider distribution in 2005. As part of a periodic exercise, on 1 April 2004 the Administrator published a list of disciplinary actions taken during the period of August 2002-December 2003.

50. As a dedicated unit within UNDP that conducts investigations into alleged misconduct of staff and loss of assets, the investigation section conducts investigations directly and supports other units that investigate straight-forward cases that do not require specialized training. If warranted, investigations carried out by the section are referred to OLPS, which determines the appropriate actions to be taken such as disciplinary measures or financial recovery.

51. In 2004, the section reviewed 27 cases involving allegations of wrong doing, of which 25 are related to UNDP. From this group of 25 cases, 18 cases were closed during the year, 12 reports of investigation were issued. OLPS reviewed the 12 investigation reports, which resulted in actions of summary dismissal for five staff members, letters of reprimand for a staff member, a re-opening of a previous year's performance assessment for another staff member, and the remaining reports were considered closed. The section also provided support to three special audits where there were indications of possible staff misconduct.

52. The allegations raised in the 25 UNDP cases that were handled by the investigation section may be grouped into five categories:

(a) Theft of assets (thefts of government contributions, satellite telephones, fuel coupons and project assets) – 28 per cent or 7 cases;

(b) Procurement (allegations of kickbacks and conflict of interest between contracting officials and vendors) – 28 per cent or 7 cases;

(c) Cheque fraud (legitimate checks either had been written by the office and were fraudulently changed, or unknown persons made counterfeit cheques and successfully negotiated them) – 20 per cent or 5 cases;

(d) Abuse of authority (recruitment and separations were not handled in a fair and transparent manner; use of United Nations status to import duty free alcohol and run a social club; taking for personal use, without permission, weapons turned in by demobilized combatants under a disarmament project) – 12 per cent or 3 cases;

(e) Other (allegation of harassment and threats; interfering in handling administrative arrangements; submission of false documents to support salary history) – 12.7 per cent or 3 cases.

53. As part of a periodic exercise, on 8 April 2004 the Administrator published a list of disciplinary actions taken between August 2002 and December 2003, including information on the amounts involved and efforts of the organization to recover them.

VI. Coordination with United Nations system oversight offices

54. As a standard practice, OAPR coordinates its activities with the United Nations oversight system, which include the Board of Auditors, the Joint Inspection Unit (JIU), the Office of Internal Audit and Oversight Services (OIOS), the Internal Audit Group of the United Nations system, the Investigation Group of the United Nations system and the Panel of External Auditors. OAPR also participates in annual meetings of representatives of internal audit offices of United Nations organizations and multilateral financial institutions. In the meeting of this group in 2004, OAPR discussed the need for a common position in dealing with audit reports released to donors or giving access to donors to enable them to undertake audits themselves. OAPR prepared the proposed draft on the common position to be adopted by all agencies.

55. In the preparation of the 2005 strategy and work plan, OAPR closely coordinated with the external auditors at the planning stage to maximize the use of internal and external resources. OAPR wall also participate more actively in promoting the leadership of UNDP in interagency activities.

Conclusion

56. On reflection, UNDP believes that OAPR has achieved its objectives in 2004 within the resources available to the office. However, UNDP does also recognize that in order to become an important management instrument for UNDP, OAPR must continue to strengthen its capacities by improving working methods, applying best practices, using information technology more extensively, fostering team spirit among auditors and investigators, and strengthening the existing oversight mechanisms of the organization so that it can provide the Administrator with the assurances needed and to help make UNDP a more transparent, accountable organization to all its stakeholders.

Annex I. Definition of standard audit opinion ratings used by OAPR

Definition of performance

1. Within the operational audit context, performance refers to the economy, efficiency, and effectiveness of operations under management's control. Operational audits assess the extent to which resources are acquired and utilized with due regard to economy and efficiency, and whether management has put in place mechanisms to monitor accurately and assess whether programmes are meeting planned objectives. Operational audits do not report on the achievement of results.

2. Performance also refers to the manner is which activities are conducted – i.e., whether they are conducted in accordance with UNDP values. UNDP values encompass the notions of prudence and probity, as well as the necessity of taking acceptable risks.

Rating	Definition
Satisfactory	In general, controls were in place to ensure that operations were economic, efficient and effective; and that activities were conducted with due regard to UNDP values. Any weaknesses identified were not significant enough to compromise the overall performance and control environment. The range of corrective actions required by management is moderate.
Partially satisfactory	The majority of key controls were applied. However, some significant control weaknesses were identified. Timely corrective action by management would be required to correct these weaknesses.
Deficient	Control weaknesses identified were widespread or were significant enough to have a negative impact on performance. Management needs to take immediate corrective action to improve the control environment.

Annex II. Definition of categories of recommendations

Category	Definition
High	Action that is considered imperative to ensure that UNDP is not exposed to high risks (i.e., failure to take action could result in major consequences for the organization).
Medium	Action that is considered necessary to avoid exposure to significant risks (i.e., failure to take action could result in significant consequences).
Low	Action considered desirable and should result in enhanced control or better value for money.

Annex III. Definition of national execution audit areas

Audit area	Definition
Financial monitoring and reporting	Compliance with UNDP procedures for all payments; accuracy of journals, ledgers and financial reports, etc.
Progress and rate of delivery	Project activities, as well as monitoring and evaluation, were undertaken on schedule and according to work plan including timeliness of support services provided by UNDP; in case of implementation delays there were valid causes for those delays.
Procurement of goods and/or services	Goods and services were procured based on the "value for money" principle and in accordance with UNDP procurement procedures.
Human resources selection and administration	Project inputs in the area of human resource management were managed in accordance with the provision of the project document; personnel, including consultants, were selected following a competitive and transparent process and in accordance with UNDP procedures for the management of human resources.
Management and use of equipment /Inventory	A detailed inventory of non-expendable equipment was maintained and physical verification was carried out; project equipment was used only for the intended purposes; transfer of equipment was effected and documented.
Record keeping systems and controls	Project documents, budget revisions, reports, payment vouchers with their supporting documentation were maintained.
Management structure	Staffing was adequate, qualified and competent for the duties and responsibilities; there was segregation of duties and proper training of staff.